

## Reward and Performance as a Key Element of Motivation

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### Abstract

*The crisis and the dramatic unemployment have had an inevitable impact in salary policy and development of organizations. Therefore, considering that every organization is interested for their employees to be more motivated to work, thus, this was for this reason and relying on literature, papers and research to know to what extend the reward influences motivation of the employees. Initially, we shall also understand the notion salary and performance and how important are they in carrying out the work in one organization, and how they have evaluated by the management of the same organization. Afterwards, we shall show the way and the best methods on how to pay employees, how the manager must decide on the level of salaries of the employees, and must decide that salaries are not the same for each employee based on their performance, etc. The time has shown that the performance evaluation provides information that serves the basis for all other important activities of human resources management planning, selection, reward and motivation, continuously leading to the formation of employees. It is worth mentioning the fact that companies in general still has much work to do in connection with programs for compensation of employees, and this relying on the fact that many companies, particularly in the Balkan states where they continue to give salary different bonuses in envelopes, while reducing the transparency of payment and reward in these companies-organizations.*

**Keywords:** reward, performances, motivation, salaries, employees and organizations.

### 1. Introduction

Economic category of reward is quite ancient which has evolved in various stages. Historically, the reward has its origins from the army. It connects to a small amount of money (sold), which was paid soldiers to buy salt. During different social-economic systems the reward developed and adjusted to the changes that occurred in the conditions and labour relations, to reach nowadays when it is defined as the monetary expression of the price of labour expended by the employees. Nowadays at is quite normal and natural that employee before applying for a job, the applicant, first takes into account and assesses the salaries and rewards of the organization that gives to the employees.

### 2. Meaning of Reward as Motivation Element

The salary is a very important component of human resource management, because eventually this is the reason why people have to work. This is a sensitive and questionable topic which was debated both at a practical and the theoretical level. In the USA the term compensation stands to show everything that individual employee has taken an in return for work. Employees may understand compensation in return for a well done job. Reward or compensation that an employee receives for their contribution in the organization includes monetary and non-monetary component. The reward does not only reward employees for their efforts, it also has an impact on recruitment and retention of talented people within a defined organization where they are employed.<sup>1</sup>

The challenging nature of management is the result of increasingly more complex nature of "bonus package", the bonuses do not relate only to the payment according to Thomson (2002), (Banfield & Kay. 2011.436).

Nowadays employers can choose between a large numbers of reward elements while creating reward packages for their employees in individual ways for everyone. The notion management of rewards shows that benefits of the employees for their contribution can be managed and are not simply problems that can be attributed to the calculations of personnel dealing with wages or salary or operating system consequences per item, or negotiated consequences with the workers' unions. A successful system of rewards in its organizing includes the following elements:

*Non-monetary reward*, which itself includes intangible profit values. Intangible values in this case may be: career and social services, such as, insurance of place of work, rewards, decorations and strong friendship, etc.

Direct reward is a basic reward for an employee; this reward may be in the form of one annual salary, payment per

<sup>1</sup> Michael Armstrong; "Employee Reward", Year 2002

working hours, or any other payment or monetary reward based on performance an employee has shown.

Alternatives of such rewards are:

Basic salary: Is cash salary for the employee.<sup>2</sup>

Simulative salary: Is given in cases when the determined objectives from performance of the employee are fulfilled, this form of reward is an excellent motivation to meet the objectives in the business of organization.

Bonuses: Are rewards given here and then for special cases.

*Indirect rewards* is a completely different process from the two above named rewards, as it includes everything, starting from legal public programs, necessary for social and health insurance and , care for aged persons, programs for retirement, costs of movement, health insurance, super for shelter, event tickets, clothing, the use of accessories, offered food, the use of fix telephone, and cell phone up to the children's care, etc. (Tracy. 2013. 43,44).

Thus, in the work market, indirect reward is becoming more and more important.

### 3. Reward and Motivation

Each company should pay attention to the way reward is given, as in this way it is determined if the company employees are evaluated. Rewarding the employees to their annual employments, it shows that the employer appreciates and admires the employees who have decided to remain with the company.

During the time when the employees are in charge of work, the employer should

show his appreciation for their overtime accomplished work and it is not important what forms of reward elements are used for them, as they have received an estimating message from the employer. This message is important, as here we can find the types of reward that are linked with structure of business, enlisting of working force, preserving, motivation, performance, reactions and employees' pleasure. The reward is usually amongst the first things that the employees take into consideration when commencing with new work.

So the salary is an important element of motivation of employees at work. Studies made in the field of human resources, show that employees are likely to overestimate the importance of salaries, but it should also be noted that the salary is not equally important in all situations and for all people. So most likely people underestimate the importance of salary as a motivation factor and pay greater attention to factors that consider work as contributing factor to the entire society.<sup>3</sup> Below are given the data from studies conducted on the importance of compensation as a motivating factor. Research studies are interesting for the fact that if employees are being surveyed to make a ranking of the factors that motivate them to work, they decide for the salary as the main factors in the ranking, but if conducts studies are using meta-analysis, then the produced results are different. For many people the salary remains in the core of function reward. To resolve the case of reward on payment, hours and conditions are the most important contribution toward the partnership, (Banfield & Kay. 2011.451). So, the salary is a motivational element, but does not rank among the first where such a thing is emphasized in various literature of the authors, such as:

*Herzberg, Mausner, Peterson, and Capëell (1957) emphasize that the salary is ranked the sixth in conducted classification in terms of importance, the other listed elements after the payment are: safety at work, evaluation the company where they work. Then Jurgensen (1978) - in a study conducted over a 30 year period noted that the salary ranks the fifth in a list as a motivating factor for men and the seventh for women as a motivating factor. For men, the most important salary as a motivating factor as security, prosperity, type of work, and the company where he works, while women more important than salary as a motivating factor are: the type of work, the company where they work, safety at work, the manager and the relationship with him, career advancement and cooperation.*

The Towers Perrin (2003) - observed around 35,000 employees in the US and noted the importance of salary as a motivating factor depends on the objectives. Competitive base salary ranks the second in terms of how it affects the motivation of employees, whereas the salary increase by individual performance is ranked as the eighth in classifications.

### 4. The Importance of Salary and its Impact on the Development of the Organization

Locke, Fere, McCaleb, Shae and Denny (1980)-made studies through the use of Meta - Analysis productivity in the workplace, stress that the establishment of reward incentives leads to increased productivity by an average of 30%. In contrast with this, enrichment of work leads to increased productivity by about 9 -17%, whereas the growth of the participation of workers in decision-making leads to increased productivity by about 1% on average.

<sup>2</sup> Michael Armstrong: "Employee Reward", Year 2002

<sup>3</sup> Michael Armstrong: "Performance Management: key strategies and practical guidelines", Year 2000

Guzzo, Jette and Katzell (1985)-the research made by Meta-Analysis of monetary incentives and other programs that affect the incentives output, they have stated that financial incentives so far have had the greatest impact on productivity.

For example, the salary has a higher impact on productivity growth than other interventions of a designed type with more interesting work.

Yankees, Mitra, Gupta and Shae (1989)- the research made to see the connection between financial incentives and performance requirements for manufacturing quality and quantity, it doesn't show any correlative link between incentives to reward and production quantity, and there is no connection between reward incentives and quality of production. As seen from the above figures, the employees respond in most cases that the financial incentives make them more motivated to work than other policies pursued by the human resources department. Payments based on performance are gaining popularity across the organization (Robins & De Cenzo. 2012.430).

An interesting fact that was observed during the study was the fact that for individuals applying for job, the reward was the main motivating factor, and for individuals who already have been employed, the reward was a motivating factor, but not the most important.<sup>4</sup>

This finding came from a study made in 1978 by Jurgensen, who estimated ten features of work that motivated the employees; among such features the reward was also included.

The second way used to see the link rewards as motivation element is called "Attraction Policy", which examines how the employee evaluates the attractiveness of the job characteristics. For example, various characteristics of work were selected, such as: salaries, location, type of work, the benefits received from work, the average time of promotion of employees, etc., to see the contribution in motivating of the employees for each of the said characteristics. Such studies have shown that the reward was one of the most important motivating factors of work.<sup>5</sup>

Thus, as a summary, we can say that there is strong evidence that the salary is a possible motivating factor. I say "potential" because in order to motivate, salaries should be strongly related to performance. However interesting facts come from a study conducted in 2002 by Rynes, who suggests that managers do not believe the reward to be so important for the behaviour of employees, despite the fact that employees dedicate to much importance to the link of salary with their behaviour. In this way top managers deem as very important for employees, welfare (labour conditions), challenging work, independence in decision making and focus on the customer.

However it still remains the fact that the reward is linked directly with motivation. This can be explained through "Hierarchy of needs by Maslow," who explains the motivation of the human being as a result of the need to meet the needs of a higher level, but always without missing needs of those in the lowest order (Mustafa. 1997.353). In this way, to pass from the lowest order needs "physiological needs" money is necessary to open the way to social status (i.e. to pass on higher hierarchical levels). So the salary is a very important element which can help in achieving the levels of Maslow motivational hierarchy, including self-actualization.

Many managers believe that the importance of the salary as a motivation element depends not only on the situation, but also by the individual personality or level performance they want to reach.

## 5. Performance Evaluation and Salary as a Motivational Element

The employees are very sensitive to salary down-sizing. Reactions of the employees to changes in salaries depend on a large extent by how the reasons for changing the salary policy are communicated to employees.

The salary plays a modest role in motivation and performance, in systems where people receive the same reward, despite lying on individual or group performance where they belong. In order to stimulate workers for certain jobs, PVR differences in salaries and services are created of rewards for employees of organizations (Ramosaj. 2007.166).

Evaluation of performance is a systematic process to determine the relative value of a job within the organization in order to:

- i. Provide accurate information to establish and maintain a fair salary structure.
- ii. Provide as much as possible a basis for assessing the work and managing of work related within a structure (classification).
- iii. It enables a stable decision regarding the classification of jobs.
- iv. It ensures that the company is meeting the legal and ethical requirements "on equal salary for work of equal value".

<sup>4</sup> Angela Wright "Reward Management in Context", Year 2004

<sup>5</sup> Kume. V, (2010), *Strategic Management*, Tirana.

- v. Evaluation of employee performance is indispensable for the organization and it needs the said evaluation a system for the above mentioned rewards.

Without a system of evaluation, a company management and employees operate in complete darkness where the efforts aren't co-ordinated – it is the same as to walk without knowing where you are going!!!

It is important to remember that fellow employees have the most significant effect on the performance of employees. Therefore, considerations of the management should include peer opinion of his/her job and how the assessment of particular employee is seen from his/her colleagues. Deviation from what is considered fair and honest will immediately put new colleagues and shall undermine from within the overall system of employees' performance.<sup>6</sup>

## 6. Importance of Systems for Evaluation of Employees

A performance evaluation system is important for executives as well as for the employees due to bellow mentioned reasoning:

- a. Is a method which has been agreed by both parties to use for assessing of performance and accordingly shall further assess achievements of the employees.
- b. He makes it clear to the employees that the decisions of leaders are fair and not based on personal preferences or discrimination.
- c. It assists in the professional development of employees.
- d. It gives employees a more objective point of view to understand whether the company has no advance or make any progress.
- e. It adds the motivation introducing new challenges and assessing achievements.

And when a manager has to decide on the level of salaries for the employees, he must decide that the salaries mustn't be the same for every employee. So, salaries should be individual. They cannot be rewarded equally, someone who works harder or better than anyone else, for the same work. Below I shall try to explain how to set individual salary in as fair as possible.

## 7. Seniority or Performance

One of the factors that affect setting of the salaries is seniority, or life expectancy at work At first glance this seems right. More years of work, more experience. Experience improves the quality and individual contribution toward the achievement of organizational objectives, but this is not always the case. Many businesses in the development process need to apply new technology. Thus, the experience of several years with the old technology, no longer goes to work. While new technologies can be used better from new employees. On the other hand, the method of payment by seniority, would lead to a lack of motivation of young employees, who can actually work better than the "old".

Another factor is setting of salary performance at work. It is easy to understand the essence of it. If employees do their job better, they get paid more. This brings motivation among them and the accomplishment of this method creates benefits as businesses, as well as to employees. But how is the performance evaluated? It can be compared with grades in college and there are several methods:

The method of objective assessment, where employee performance is based on something concrete, for example, as sales were accomplished within a certain period of time.

Subjective evaluation method, different from that objective, includes evaluation and also the opinion, perhaps unilateral, of the supervisor on the employee. For this reason, there are laws that protect employees from estimates based on race, religion, gender, etc.

Evaluation of 360 degrees, is a process through which all employees appreciate each others for performance. Traditionally evaluation is done from top-to-the bottom, but more and more it has begun to be implemented in mass, where ordinary employees evaluate their bosses.

## 8. Conclusion

Based on consulted literature and findings in this scientific work, we may emphasize that the reward has an impact on special motivation of employees which then turns to company productivity and profits, something which leads the organization toward the growth and further development. It is understandable that a motivated employee gives the

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<sup>6</sup> Donald L. Cauth ; Gail D. Handlogten; " Managing compensation (and understanding it too)", Year 2001

maximum of his/her own, in the same time he/she is devoted to the performance of his/her own and achieves the results and highest productivity in the organization where he works.

It should also be kept in mind that the costs of salary and bonus occupy a significant part in the organization's expenses, but it should be known is how to manage them, without creating gaps and financial deficit organization. Therefore, drafted reward packages must be well-studied and which will not have any negative impact on the financial situation of the organization.

In this paper, emphasis was placed to reward based on performance as a form of reward that takes into account the individual employee contribution to the achievement of predetermined objectives of the organization. And another important issue is that organizations have greater transparency in such a way that persons who are affected by decisions have the opportunity to examine the ways in which these decisions are taken and on what basis they were taken.

But what is important to note is the fact to develop a successful reward strategy based on the performance, all the factors that have an impact on the achievement of performance, composition of the works and the contribution given by the employee in accomplishment of organizational objectives must be taken into account.

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